CHAPTER 2 - RESEARCH METHODOLOGY

2.1 INTRODUCTION

We need to understand what are the tier II urban banks and evaluate their performance in terms of deposits and advances of said urban banks of south Gujarat and to detect the discrepancies of existing progress of tier II urban banks in South Gujarat. So as to minimize the events of weakness that lead to creates distrust among customer and shareholders.

This chapter deals with stepwise procedure adopted to carry out this research study. It is felt that the procedure adopted hers is sufficiently effective and most accurate in the light of research and various limitations.

2.2 PROBLEM STATEMENT

“Performance evaluation of the tier II urban banks in south Gujarat particularly in deposits and advances. Also study the strongest of banks on their working of management.” As an investor (depositors) or creditors point of view, financial soundness of any co-operative banks is an important thing in study of the financial position of a bank particularly tier II urban banks of south Gujarat. If soundness and working are present then it would create a big trust amongst the customers, shareholders and depositors. So from a safety point of view it is very necessary to study evaluation of financial performance particularly in deposits and advances of tier II urban banks of south Gujarat. Researcher has selected to do research about the financial analysis of UCBs particularly tier II urban banks in which his main focus is deposits and advances because from last eight years, a no. of co-operative banks have failed due to high deposit rates, bad loans and bad investments. So it is very important for success of any bank to maintain sound financial health. Researcher has also to put the
emphasis on rating of banks on deposits and advances management; so that it can be said which bank is more efficient in management of its assets.

2.3 SIGNIFICANCE OF THE STUDY

Co-operative banks play very important role in providing banking services to common man in their area of co-operation. A small depositor or a small borrower feels comfortable in dealing with the local staff of co-operative bank than to the staff of nationalized banks, foreign and private sector banks. If co-operative banks go in liquidation due to bad loan or bad investment, not only customers and staff members of that particular co-operative bank will suffer but all other co-operative banks will also get a major setback, leading to severe damage to the reputation of entire co-operative sector which is very important for the balance of economic development of our country.

Banking is the life blood of Indian economy. Banking has three types of sectors, which provide finance to different sectors i.e. private sector, public sector and co-operative sector.

The co-operative banking sector in India plays an important role in expanding rural economy as well as banking structure and its services to the last man of the society. The co-operative banking structure has developed very fast in India but still it lags in so many things like ideal liquidity position due to bad loans and bad investment.

For the sake of inspection purpose the RBI has put co-operative banks in two different category i.e. Tier II and tier I coop.banks. The Study of the Tier II co-operative banks of south Gujarat is done by evaluation of tier II urban banks which leads us to understand the position of banks and which ultimately affects the economic development of the state and nation.
The performance of the bank particularly in deposits and advances are generates its financial health and develop their trust among customer shareholders and depositors.

Looking to the situation of banks it is desirable to take effective measures to improve the quality of deposit, advances and investment. Managing these assets is required in order to protect the interest of shareholders, depositors as well as increase the credit worthiness of bank. It is also advisable to increase the profitability by making the provision as well as expansion plan. Good financial health is a success for sustaining the economic growth, to increase the welfare of employees, to maintain reputation of the banks as well as to create job opportunities for future generation.

2.4 OBJECTIVE OF THE STUDY

The present study “Performance evaluation of Tier II urban banks of south Gujarat particularly in deposits and advances.” has been initiated to fulfill certain objectives which are as follows:

* **Main:-**

To study the financial position of tier II urban banks in terms of deposits and advances and its effect on the financial health of the banks.

* **Secondary:-**

To study the brief guidelines of Reserve Bank of India for Tier II and tier I urban banks.

To know the effectiveness of strategies adopted by the banks.

To understand the discrepancies of the co-operative banks in order to minimize the events of defaults that lead to dis trust among customers.
2.5 RESEARCH DESIGN

In the analysis of the performance of tier II urban banks, descriptive as well as analytical research design is used, in which past data of the banks are used to interpret the financial strength of the banks.

2.6 RESEARCH INSTRUMENT

To collect the necessary data personal discussion with various executives of tier 2 urban banks of south Gujarat were made, thus removing and clarifying the doubts and misunderstandings on the spot. As a result clarification of thoughts and better understanding is reflected.

2.7 SOURCE OF DATA COLLECTION

The study focuses on entire condition of performance evaluation of tier II urban banks of south Gujarat. As it was descriptive type of Research work, for collecting primary data

- **Primary Source:-**

  Primary data have been collected through discussions with managerial personnel, executives and staffs of the tier II UCBs.

- **Secondary Sources:-**

  Secondary data are taken from annual reports (Balance Sheets, Profit & Loss Accounts) of the tier II UCBs, internal circulated matter from RBI, RBI’S guidelines, Trend & Progress reports of RBI, Co-operative journals, co-operative diary and from the web sites available on net.
2.8 ANALYSIS OF INFORMATION

- Researcher adopted financial tools to know the financial condition of tier II urban banks.
- The conclusion is drawn on the basis of performance of tier II urban banks of last eight years i.e. 2001-02 to 2008-09.
- After going through the analysis, researcher gave some of the suggestions, which would help co-operative banks in improving the financial health and develop their success path.

2.9 PERIOD OF COVERAGE

Researchers chose the period of coverage for financial performance of tier II urban banks on the basis of last eight financial years i.e. 2001-02 to 2008-09.

This period is selected for the study because the period is sufficient for the analysis and to get the trends.

This period is considered adequate to study, trends and infer valid conclusion.

2.10 SCOPE OF THE STUDY

- The study covers only those tier II UCBs which are registered in South Gujarat. It does not cover those tier II UCBs which are working in South Gujarat but registered elsewhere.
- This study enables researcher to improve knowledge about the banking sector, specifically on performance evaluation.
- This study also enables the banks to know its actual financial position in last eight years.

2.11 TOOLS AND TECHNIQUES

The following accounting, statistical and diagrammatic techniques are used by the analyst:
(A) Accounting techniques

(B) Diagrammatic and graphic presentation of data

(A) Accounting techniques

The following accounting techniques are used by the analyst:

1. Comparative statement analysis.
3. Ratio analysis.

(B) Diagrammatic and graphic presentation of data

Diagrams and graphs are exhibiting the data in sample, comprehensible and intelligible form.

2.12 SELECTION OF SAMPLE

There are 8 tier II UCBs registered in South Gujarat as on 31st March, 2009. The names and their locations are mentioned below:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>The Sarvoday Sah. Bank Ltd.</td>
<td>Surat</td>
</tr>
</tbody>
</table>
The sample of present study is restricted only to those tier II UCBs which are registered in South Gujarat. Up to March 31, 2009 only thirty three UCBs have been registered in South Gujarat. Out of these, the data of 8 tier II UCBs for the period of eight years (i.e. from the year 2001-02 to 2008-09) are taken for the study.

Though there are 31 urban co-op banks in south Gujarat but only 8 urban banks covered in the study as they carrying tier II marking by Reserve Bank Of India (Deposit over 100 crores)

The data for the present study will be obtained from the 2001-02 to 2008-09 annual financial reports of the selected UCBs and from various journals of trade and co-operation, RBI bulletins and circulars, books and various committee reports based on the UCBs and from lending daily news papers, form the south Gujarat urban Co-operative banks Association and from district registrar co-operative societies.

Analysis of financial statements of selected tier II UCBs will be done by applying the tools and techniques of accounting and In addition, various types of tables, graphs, , charts and diagrams are incorporated wherever required to interpret collected data.

The sample is selected after taking the following factor into consideration.

“The sample represents the tier II urban banks of south Gujarat.”

Based on Annual Reports of 8 tier II urban banks and by classification it is clear that tier II urban banks represent 80% deposits and advances from total urban banks in south Gujarat.
2.13 LIMITATIONS OF THE STUDY

The following are the major limitations of the present study:

a) Since the primary data & secondary data used in this work are collected from the officers of UCBs and published annual reports of respective tier II UCBs respectively, they have inherited limitations.

b) The present study is based on the selected eight UCBs. As the size of the sample selected is very small, the limitations of a small sample are applicable. Moreover, the sample includes only those UCBs which are classified as tier II urban banks and registered in South Gujarat and statistical information of which are available for the entire period of study. The sample does not represent those UCBs which are functioning as tier II urban banks but not registered in South Gujarat. Thus, the conclusion inferred from the above study may not be applicable to the UCBs which are not registered in South Gujarat. No sample has been taken from multi-state UCBs as their registration is out of Gujarat.

c) The limitations of tools and techniques applied for the analysis are inherent in the present study.

d) The analyst could not get some information otherwise useful for a deeper study, due to the RBI restrictions on disclosure of data on part of higher officials. It is said that nothing is complete in the world except god. Thus, the performance evaluation of tier II urban banks particularly in deposits and advances are not free from the limitations as they are formed by the people. During the study I found financial statements of the banks containing many limitations. Moreover no one can get rid from the all limitation but by the proper course of integrated steps and continuous observation, I have found through the analysis of total tier II urban co-operative banks of South Gujarat that financial statement are not able to provide exhaustive information or picture of financial condition of tier II
UCBs. Financial statements do not contain every effecting aspects of tier II UCB e.g. the Govt. policy, RBI policy relating to tier II UCBs effects the financial statements of UCBs but what exact effect occurs on financial statement cannot be said.

Now a day, all corporate houses, banks etc., have started to believe the employers as living assets, in fact it is a reality that employers work for the profit of every banks but while we evaluation of performance no such effects is given for such assets. Performance evaluation is incomplete without living assets, employees but it is also found to calculate the value of such assets. Employees are living assets so tier II urban banks should develop unique method to calculate the value of employee as assets.

When we evaluate performance we have to consider their Profit and Loss Account which shows gain and loss which has actually occurred in monetary value but there are many events in the business which occurs and effect much to business yet they are not written in financial statements e.g. If any efficient and good employee resigns the service it is a loss for UCBs but yet it is not written in the financial statement.

So during the analysis of performance evaluation such events are not considered whose effect has been on financial statement.

Many market aspect affects on business like inflation in market boom period or recession in market etc. surely affects on working of UCBs. But performance evaluation cannot point out what affects have occurred on the financial statement. This is major limitation of the study.

Many time, it has been seen in the past and have also read in newspapers managing group use their power to do male practice but what affects have been occurred on financial statement cannot be
found or pointed out by the analysis of financial statement this is also a limitation of the study. UCBs are run by democratic method and active politics is major affecting factor to UCBs due to this, many decision and regulation are influenced by this but what positive and negative effects have occurred on the banks cannot be said while performance evaluation.

Any UCB can bring any figure high by taking some crafty steps to make the condition good and bright e.g. If UCB stops to lend the loan in last few days and only collects loan installment, the condition would be, in a few days bank balance would increase on the last day of year and liquidity would be improved but this is not right picture of financial health of a UCBs such act cannot be analyzed.

Business scandal in the market or the any malpractice in the market by other business group, institute or organization affects on each and every organization. Scandal in any UCBs, which have come in light before a few years, affects on UCBs under study but what affects have occurred on the UCBs cannot be pointed out through the performance analysis of tier II urban banks.

Inflation and deflation in the market affects much on market condition, decision of customer to saving and expenditure but what change have been brought in by customer cannot be said by performance analysis.

It has been seen in past that UCBs having good figures and healthy figures, have note good condition in real sense, so the performance analysis of tier II urban banks is not every time right this may be full
with bias. The performance evaluation may be playing of figures so one may not get proper picture of UCBs this is also a major drawback of evaluation of tier II urban banks. The figures extracted by the analysis of financial statement by using percentage of ratios are terminal figures and tough to understand for each and every related person with UCBs to interpret the figures or to know the real sense of meaning of the figure. Proper knowledge is required otherwise one cannot understand what the figures say.

The ratio which is found out from analysis of financial statement can be said good or bad by comparing it with standard ratio, but it is only an assumption of man which is standard ratio for that ratio and the standard ratio also vary with man to man or user to user, so the decision made by this ratio may be much affected of personal view and the coming opinion would vary with man to man. I extremely believe that the standard ratio is decided on the need of time e.g. in the time of recession of market one should keep liquidity ratio high than the period of boom, the standard ratio is not fixed at every time, so one can be at perplex to compare the result with standards.

In spite of all these limitations this study throws light on the important parameters of tier II urban banks.

2.14 REVIEW OF LITERATURE

(1) Ms. Abhilasha Agarwal

Topic: "Analysis of financial statement - a study of the UCBs in surat city"

The researcher has concentrated on analyzing the profitability, liquidity, Capital structure and Fund flow of Select UCBs in Surat for the period 1994 - 2000.
The researcher has attempted successfully to analyze the financial status of UCBs, but no effort has been made to study the entire tier II urban banks of south Gujarat.

(2) Mr. H.H. Gandhi

Topic: “Comparative study of the UCBs in Surat City.”

Mr. Gandhi has taken up a Comparative Study of the UCBs in Surat City. His Study laid stress on the working capital, investments, classification of deposit, expenses analysis, advances and profit. His Major observation is that the cost of funds has increased remarkably during the period of Study (1993-1997).

He has touched only the outer aspects in the functioning of UCBs in Surat. The study does not provide any internal functional aspects that contribute to the performance of UCBs. Moreover, the study restricted to only select urban banks in Surat city but not considered the tier II urban banks of south Gujarat.

(3) Dr. R.K. Patel

Topic: “Problems and prospects of UCBs with special Reference to UCBs in Ahmedabad.”

Dr. Patel has undertaken a structural, financial and factor analysis of the UCBs considered for study. His efforts revealed that there is lack of effective professional management and financial management. The NPA ratio is high and the customers are not satisfied. Most of the UCBs are unaware of the recent developments in banking sector and the customers wish that UCBs implement modern techniques in line with international standards. This study restricted to only Ahmedabad city so consideration of south Gujarat is ignored.
(4) M. Niyati Golwala (DBIM, VNSGU, SURAT) & Ms. Yamini A Patel (Shree Leuva Patel Trust, MAHILA COLLEGE, AMRELI, Saurashtra Uni. Rajkot)

Both the MBA students studied the Surat People’s Bank, the best Co-operative Bank in India. They observed that the NPA position of the bank is very satisfactory. The limitation of this study is that they have taken only one bank and thus no comparative analysis was possible.


This book contains the following chapters

1. Banking Regulation Act.
2. Circulars Regarding Banking Regulation Act.
3. Foreign Exchange Business
4. Interest Rates on Rupee Deposit and Maintenance of Deposit Accounts.
5. Loan and advances
7. General
8. Miscellaneous

This book published every year, provides important information, guidelines, issues, norms etc. pertaining to co-operative Banks.

(7) SwadeshSwapna (Weekly Newspapers specially For Co-operative Sector) (Published by Shraddha Publications, Surat).

K. V. Lakum (Board Members and visitor Professor, National Institute of Co-operatives Management, Gandhinagar, Gujarat.)

Mr. K.V. Lakum writes every week under the title “NagarikShakariBanko mate reserve Bank of India in sarvaangisuchnao (RBI’s Directives for Urban Co-Operative Banks)